

Copy No. 2

TOP SECRET
SECURITY INFORMATION

OIR/DRI CONTRIBUTION TO SIE-3:

EMBARGO AND BLOCKADE AGAINST COMMUNIST CHINA

January 17, 1952

State Dept. declassification & release instructions on file

**DEPARTMENT OF STATE
OFFICE OF INTELLIGENCE RESEARCH
Division of Research for Far East**

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

I. What is the current status of the implementation of the embargo against Communist China?

The US and the leading Western European industrial nations had applied selective embargoes against Communist China since July 1950. The US has enforced from December 19, 1950 a complete trade and shipping embargo against Communist China. Pursuant to the May 18, 1951 UN General Assembly resolution, some 43 nations have applied selective trade embargoes against the shipment to Communist China of "arms, ammunition and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and items useful in the production of arms, ammunition, and implements of war." The contraband lists and the enforcement measures, which are determined by each country individually, are not uniform.

Important non-cooperating nations outside the Soviet bloc include India, Pakistan, Burma, and Ceylon. These countries have indicated that their failure to declare an embargo against Communist China was due to the fact that they exported small amounts, if any, of strategic goods and were therefore unwilling to exacerbate needlessly their relations with Communist China.

Switzerland, an important world supplier of certain precision instruments and industrial equipment, had shown little cooperation in embargoing strategic shipments to Communist China until the end of 1951, but is now applying controls.

The net effect of these embargoes -- both the total trade embargo applied by the US and the selective export controls applied by other free world countries -- has been an increase in the cost, a change in the composition, and a reduction in the total volume, of Communist China's imports from

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

2

the West. It is to be noted, however, that selective embargoes alone can limit the range of imports available to Communist China but not necessarily the total volume of imports, since Communist China can import non-embargoed commodities to the extent of its exchange resources. The present embargoes, with the exception of that of the US, permit the shipment to Communist China of a wide range of goods defined as non-strategic. Such goods are typically chemicals and dyes primarily for the textile and other consumer goods industries, paper, textiles, foodstuffs, textile machinery, and other machinery and metal manufactures considered to be of a non-military nature. All of the recorded exports of cooperating countries to Communist China are in this category and constitute the bulk of the shipments of non-Soviet countries to Communist China.

While there have been substantial shipments of goods from non-cooperating countries to Communist China, these, with the exception of 5,000 tons of Ceylonese rubber and some Swiss industrial machinery, have been non-strategic in character, consisting mainly of raw cotton from Pakistan and jute and cotton textiles from India.

II. What are the causes of less than 100 percent implementation?

Embargoed goods are being shipped to Communist China from cooperating non-Soviet countries both legally, through transshipment via third non-cooperating countries, and illegally, through smuggling. Through these two channels, Communist China is receiving such commodities as petroleum, rubber tires, and embargoed machinery items. The magnitude of such shipments is uncertain; it is believed to be significant but small in relation to the legitimate trade. Such shipments may be increasing,

TOP SECRET
SECURITY INFORMATION

TOP SECRET

SECURITY INFORMATION

3

although their expansion is restricted by the high cost of shipment, the limited availability of shipping and other facilities for such purposes, and the gradual improvement and expansion of enforcement measures against such shipments by cooperating countries.

III. What measures might be taken to increase the efficiency of the embargo?

The efficiency of the present embargo can be increased through (1) improving the enforcement of present measures, and (2) increasing the number of cooperating nations, and (3) expanding the list of embargoed commodities.

Improving the enforcement of present measures would involve stricter policing of smuggling activities and the imposing of regulations designed to halt transshipment of embargoed goods, such as surveillance and licensing of exports of embargoed goods to non-cooperating third countries and the denial of shipping and port facilities of cooperating countries to vessels carrying cargo to Communist China that has been embargoed by the country of origin. It is probable, however, that such measures can be achieved only gradually and will not greatly increase the present effectiveness of the embargo against Communist China.

Similarly an increase in the number of cooperating countries with no change in the scope of the embargo, would not greatly increase the present effect of the embargo on Communist China. The present non-cooperating countries that trade on a significant scale with Communist China, e.g., India and Pakistan, for the most part supply commodities that come under the US embargo but not under that of other free world nations. If these countries were brought in, efforts to prevent transshipment of embargoed commodities could be more successful and in addition Communist China's

~~TOP SECRET~~
SECURITY INFORMATION

4

remaining potential sources for natural rubber (Ceylon and Burma) would be virtually eliminated. Participation in the embargo, however, would involve considerable political difficulties for the presently non-cooperating countries. In the case of the South Asian countries, which are particularly vulnerable to Chinese Communist aggression, participation in the embargo would seriously undermine their attempts to maintain overtly a neutralist position in the East-West conflict.

The third possibility -- an increase in the scope of controls -- has by far the greatest potentialities for affecting the economy of China but at the same time would be the most difficult to obtain. As has been pointed out above, the predominant portion of the commodities which Communist China now imports from the free world have been defined as non-strategic in the UN resolution. To cut these imports, the participating countries would have to agree to a basic change in their current philosophy of economic warfare against Communist China. In effect they would have to adopt the position of the US -- that all exports to Communist China are strategic in the sense that they contribute to the operation of the Chinese Communist economy and therefore tend to increase its military potential. If this position were also to include an embargo against imports from Communist China, it would result in a sharp reduction in Communist China's foreign exchange earnings and thus reduce its capability to import commodities from the free world through clandestine channels.

~~TOP SECRET~~
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

5

The difficulties involved in such a change in policy must not be underrated. The participating countries have agreed to the present controls only with great reluctance and after considerable delay. Although this position varies with changes in the prospects for an armistice in Korea, in general, they oppose an increase in the scope of controls on political grounds as involving increased tension between East and West, and on economic grounds as involving losses from a reduction in trade, higher enforcement costs, a disruption in foreign trade operations, and in some cases a violation of traditional trading policies. Moreover, they may feel skeptical with regard to the effectiveness of a total embargo in view of the possibility that Communist China could continue to import free world commodities via transshipment through Soviet bloc countries or through non-cooperating free world countries.

The application of a total embargo would impose a particularly serious burden on Hongkong, yet the participation of Hongkong in such an embargo would be essential. Cessation of trade with Communist China would seriously impair Hongkong's economic position and at the same time would invite Chinese Communist retaliation through political subversion or possibly outright military aggression.

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

6

IV. What are the capabilities of an embargo to bring pressure to bear on Communist China?

A. What has been the effect of control measures implemented to date?

1. What has been the effect on Communist China's imports?

Communist China's trade with non-Communist countries in 1950 and 1951 is estimated as follows: (in millions of US dollars)

	Imports ^a	Exports	Trade Balance
Jan-June 1950	112	170	+ 58
June-Dec 1950	302	230	- 72
Jan-June 1951	380	120	- 260
June-Dec 1951 ^b	130	100	- 30

a. Includes estimates for smuggling but not for transshipment of western goods via Soviet bloc countries.

b. Preliminary.

The sharp reduction in 1951 exports to the free world was due in large part to controls imposed in the US and Japan, which together had taken nearly half of the 1950 exports. Also, war-induced shortages of textiles, forced a reduction of textile exports to Hongkong and Southeast Asia in 1951 over 1950. However, by increasing exports of Manchurian grain and soybeans from several hundred thousand tons in 1950 to over one million tons in 1951, total exports to non-Communist countries were maintained at a little over half of the 1950 rates.

Imports expanded rapidly in 1950, continued to rise to peak levels in the first half of 1951, and then dropped sharply in the latter part of the year. While the exchange resources and Soviet financial assistance available to the Chinese Communists are not known, it appears that substantial foreign exchange balances were accumulated in 1950 (in addition to earnings from

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

7

exports, possibly as much as \$150 million annually were secured from remittances and purchases of private hoards of gold and foreign currency) and were spent for imports in the first half of 1951. Imports in the latter half of 1951 appear to have been limited to current foreign exchange earnings from exports and other sources (primarily remittances).

The composition of imports/ ^{from non-Communist sources} during this period is estimated as follows:

(in millions of US dollars)

	1950	Jan-June 1951	July-Dec 1951
Raw cotton	95	35	30
Crude rubber	60	120	5
Iron and steel	60	50	3
Machinery, metal mfrs.	55	40	7
Chemicals, dyes	55	50	30
Other	90	65	35
Smuggled goods ^a	a	20	20
Total	415	380	130

a. Chiefly petroleum, tires, motor vehicle parts, etc. 1950 data based on Chinese Communist figures which would not show smuggling. These figures do not include western goods transhipped via Soviet bloc countries.

The "loss" of imports incurred by Communist China as a result of western trade controls can be assessed only in terms of their effect on Communist China's total import potentialities. Without allowing for offsetting commitments from the Soviet bloc, these potentialities may be said to have been reduced in three respects: (a) the loss of markets in the US and Japan reduced Communist China's potential foreign exchange earnings from exports and in this sense its import capabilities;

TOP SECRET
SECURITY INFORMATION

~~TOP SECRET~~
~~SECURITY INFORMATION~~

8

(b) the need to resort increasingly to smuggling, transshipment, and more expensive sources of supply raised the unit cost of imported commodities; and (c) as a result of its inability to obtain certain embargoed commodities from the West, Communist China was forced to expend part of its foreign exchange earnings on imports from the West that from its point of view were less desirable than the embargoed commodities. The importance of these three factors will be assessed separately below.

The net effect of controls against Communist China's exports cannot be precisely determined without knowledge of the reallocation and pricing of such exports, or of the labor and materials involved in their manufacture. However, in view of the specialized character of certain exports and the inflexibilities of the Chinese economy, it may be estimated on a highly speculative basis that US and Japanese control measures reduced Communist China's total exchange earnings by approximately \$100 million, its exchange earnings from non-Soviet countries by somewhat more, and its gross national production by somewhat less.

The reduction in import capabilities resulting from the effect of the embargoes on the unit cost of imports is still more difficult to determine. Non-availability of US cotton has forced Communist China to purchase Pakistan cotton at half again as much as the US price and many other products formerly secured from the US are being bought at a substantial price increase from Western Europe. The cost of smuggled goods is probably double their normal cost. In consequence, the increase in import costs in 1951 as a result of the embargoes may well have exceeded \$50 million.

~~TOP SECRET~~
~~SECURITY INFORMATION~~

TOP SECRET
SECURITY INFORMATION

9

By June 1951 the selective embargoes fairly effectively covered shipments to China of rubber, petroleum, many iron and steel products, and certain vehicles, machinery, and metal manufactures. In the latter half of 1951 Communist China's imports from non-Communist countries consisted chiefly of raw materials to maintain consumers' goods production.

Owing to an offsetting increase in imports from the Soviet bloc, the actual "loss" of imports sustained by Communist China from these three factors was considerably less than the estimated reduction in its import potentialities. The USSR apparently has supplied Communist China with its essential requirements for petroleum and transport equipment and Communist China's stocks of natural rubber appear to be ample for its current requirements over the next year or two (available Ceylonese rubber has not been procured owing to disputes over price and shipping arrangements). On the other hand, the Soviet bloc has not been able or willing to underwrite in full the reduction in Communist China's imports from the free world of raw cotton, lubricants, and other producers' goods. The extent to which the Soviet bloc has supplied Communist China with its requirements for capital goods that are now embargoed by the West cannot be determined. Apart from the specific commodities involved, it is evident that Western trade controls have involved costs for the Communist bloc as a whole in sustaining economic activity in Communist China.

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

10

2. How has this "loss" of imports affected the industrial segment of Communist China's economy?
 - a. Which industries have been affected and what is their importance?

As a result of the economic consolidation of the Chinese mainland the stringent system of economic controls imposed by the Chinese Communist authorities, industrial output in Communist China has increased rapidly over the past three years. With the exception of the heavy industry in Manchuria, industrial production in 1951 is reported to be equal to or above peak production levels achieved in the past. Moreover, current plans call for an increase in the output of state-owned industries -- which accounted for half of the total output in 1951 -- by 27 percent in 1952 over 1951. Thus far the increase in industrial production has been achieved largely with existing plants and has required only moderate amounts of new capital goods for repair and maintenance. The contribution of imports to industrial recovery has consisted of these capital goods and to a greater extent of producers goods.

The "loss" of imports Communist China incurred as a result of the embargoes has not been reflected, therefore, in a decline in output. But it is evident that output in 1951 did not increase as much as it would have increased had the embargo not been applied. The cotton textile industry is the clearest and most important example. Although cotton textile output is reported to have reached an all-time record level in 1951, it failed by one-fifth to reach the planned target.

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

11

primarily for lack of 500,000 bales of raw cotton. Communist China secured less than 200,000 bales from Pakistan in 1951 (as compared to 500,000 bales in 1950) and in so doing drove the price of Pakistan cotton far above US prices. The cotton mills in China were shut down for six weeks in mid-summer and operated on a part-time basis thereafter until the arrival of the domestic cotton crop in October.

The effect on other industries was probably considerably less significant and in any event can only be surmised. There have been reports of shortages of lubricants, industrial chemicals, and capital goods for maintenance, and of delays in their delivery -- factors which undoubtedly retarded production. In addition the Chinese Communists have been making determined efforts to develop domestic production of, and domestically produced substitutes for, many imported commodities. This program has involved higher costs and a lower quality of output.

The effects of the embargo on the growth of industrial capacity in Communist China are also difficult to assess. Reduced access to capital goods imports from the West, even after allowance is made for increased shipments from the USSR, undoubtedly has inhibited the reactivation of part of the Manchurian plant. But it is questionable whether, under the strains of the Korean war, Communist China could at present afford to divert current resources to long-term investment, particularly since a growth in industrial capacity now increasingly requires the construction of new plant rather than the rehabilitation of existing facilities. The evidence is accumulating -- as seen in

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

12

recent changes in the type of commodities the Chinese Communists are purchasing in Hongkong, their willingness to export coal and iron ore for Japanese textiles and consumer goods, their reported cancellation of heavy machinery orders from East Germany in favor of bicycles and housewares, and the officially-announced postponement of the industrialization program -- that Communist China is shifting from a developmental to an anti-inflationary import policy to combat the economic pressures arising in the wake of the war.

- b. What have been the effects on transportation? (CIA)
- c. Have there been "secondary" repercussions, such as consequences upon Communist China's monetary and fiscal difficulties?

The heavy Korean war expenditures have created a budgetary imbalance and strong inflationary pressures in Communist China, forcing the government to adopt stringent policies in the attempt to stabilize the economy. Although the strains imposed by the embargo are small in comparison, they represent a reduction in the total resources available to the Chinese Communists, and thus have contributed to the regime's fiscal difficulties.

The reduction in gross national production as a consequence of the embargo must, by even an optimistic estimate, be considered small. The disruption of export production was previously estimated to have reduced output by \$100 million and reduced imports of producers' goods may have reduced net output by an at least equal amount. Nevertheless, a loss of output in this segment of the economy is of great significance to government operations. A large proportion of this production is secured

TOP SECRET
SECURITY INFORMATION

~~TOP SECRET~~
SECURITY INFORMATION

for the support of the government through import and export tariffs, government enterprise profits, commodity taxes, etc., while the output of consumer manufactures is an important means of mobilizing, through urban-rural trade, the grain and agricultural raw materials to meet military and urban requirements.

3. Have there been any significant effects in the non-industrialized segments of Communist China's economy?

The non-industrialized segments of Communist China's economy have few requirements for imported materials and have therefore been little affected by the embargo. While Communist China imported \$10 million of chemical fertilizer in 1950 and possibly somewhat more in 1951, apparently for application on Kwangtung sugar cane, Shantung tobacco, raw cotton in the chief growing areas, as well as on State farms to produce impressive crops, these supplies have not been significantly affected by the embargo in either their availability or cost. The embargo probably has reduced kerosene supplies in the interior with a consequent increase in the substitution of vegetable ^{oils} which alternatively could have been exported.

4. What has been the effect of economic dislocations caused by these controls on Communist China's army and air force?
(G-2 and A-2)

5. What domestic violence and what other disturbances which may have posed significant control problems for the Communists have occurred as a result of present trade controls? How serious have these difficulties been, in terms of the Communist regime establishing a firm political control over the country?

Military requirements are the prime cause of the economic strains existing in Communist China at present, to which trade controls can

~~TOP SECRET~~
SECURITY INFORMATION

~~TOP SECRET~~
SECURITY INFORMATION

14

only be considered a small contributory factor. To the extent that trade controls have reduced potential government revenues and the means by which rural resources can be mobilized, they have been a factor in forcing the Chinese Communists to raise taxes and in general to apply increased pressure on rural areas. While such measures have not resulted in any overt loss of political control, they may have helped to dissipate the reservoir of good will and support which the Chinese Communists formerly possessed, and may lead to an increasing lack of cooperation with the administrative program.

6. To what extent have Soviet Bloc shipments to Communist China offset Western controls? Estimate the composition and volume of Soviet Bloc trade with Communist China in the past year.
(CIA)
7. Have the trade negotiations in Korea in anyway been attributable to the economic situation in China?

(This point has been discussed in Section I B 2 "The Cost of the War and the Internal Situation in China" in OIR Contribution to NIE-55.)

~~TOP SECRET~~
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

15

B. What would be the short run effect of a total embargo of all imports from all non-Soviet Bloc countries?

1. Assuming a continuation of current controls, estimate the pattern of imports for 1952, listing each major commodity by volume and value.

The magnitude and pattern of imports from the non-Soviet bloc countries in the last half of 1951 probably forms a reasonable basis on which to project 1952 imports from these countries. Most of the current controls were in effect during this period, and it appears that imports were limited to current foreign exchange earnings. On this basis, it may be estimated that 1952 imports from non-Soviet bloc countries will be as follows:

<u>Item</u>	<u>Unit</u>	<u>C.I.F.</u> <u>Unit Price</u>	<u>Volume</u>	<u>(US million)</u> <u>Value</u>
Raw cotton	bale	\$350	200,000	\$70
Crude rubber	ton	1,000	10,000	10
Iron & Steel	ton	150	40,000	6
Machinery & metal mfrs.	ton	350	20,000	14
Ammonium sulfate	ton	100	150,000	15
Industrial chemicals	--	--	--	15
Dyes	--	--	--	15
Pharmaceuticals	--	--	--	15
Paper	ton	150	100,000	15
Gunny bags	ton	400	30,000	12
Sugar	ton	150	20,000	3
Cotton cloth	000 yds.	250	20,000	5
Other	--	--	--	35
Total, legitimate imports				220
Petroleum	ton	400	50,000	20
Other	--	--	--	20
Total, smuggled imports				40
TOTAL IMPORTS				260

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

16

It is estimated that the magnitude and composition of imports from the Soviet bloc countries in 1952 will be approximately the same as in 1951. Although such imports are very large, about 90 percent are believed to consist of military deliveries, with the remainder consisting of petroleum, iron and steel, machinery to meet essential requirements, primarily in Manchuria. On this basis, it may be estimated that 1952 imports from Soviet bloc countries will be as follows:

<u>Item</u>	<u>Unit</u>	<u>Unit Price</u>	<u>Volume</u>	<u>Value</u>
Petroleum	ton	\$200	450,000	\$90
Iron, steel, machinery, metal mfrs.	ton	\$300	100,000	30
Other				30
Military deliveries				<u>1,350</u>
TOTAL				1,500

TOP SECRET
SECURITY INFORMATION

~~TOP SECRET~~
SECURITY INFORMATION

17

2. If a total embargo on exports to Communist China were imposed by all non-Soviet bloc countries, what would be the pattern of Chinese Communist imports for the first twelve months thereafter?
 - a. What commodities would the USSR and the Eastern European satellites export to Communist China? What upper limits would be imposed by transportation shortages?

In the event of a total embargo against shipments to Communist China by all non-Soviet bloc countries, it is assumed that the Soviet bloc will make every effort to supply Communist China's import requirements, subject to transport limitations and commodity availabilities. Soviet bloc countries should be able to supply approximately half (in value terms) of the imports which Communist China would otherwise have received from the West -- the iron and steel, most of the machinery and metal manufactures, industrial chemicals, ammonium sulfate, dyes, pharmaceuticals, paper, petroleum, and some miscellaneous items. Such imports, estimated at \$130 million, represent approximately half a million tons of cargo. The movement of this tonnage would require the employment of an additional 25 Liberty-size vessels (averaging two trips annually) in the trade between Eastern Europe and Communist China, and in view of the difficulty of organizing this service quickly, it is estimated that in the first year of a total embargo only two-thirds of this tonnage, valued at \$100 million, would be secured. There would be consequent reductions in the bulkier and less essential items, such as ammonium sulfate and paper.

- b. What might be the pattern of imports smuggled into Communist China during the first year?

Under a total embargo by non-Soviet bloc countries against shipments to Communist China it is probable that enforcement would improve

~~TOP SECRET~~
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

18

but that the incentives for smuggling would increase. It is estimated, then, that smuggling would continue at 1951 levels -- about \$40 million -- but would tend to shift to items of small bulk and high value (drugs, motor vehicle parts, chemicals, etc.).

- c. What imports would be "lost" as a result of the total embargo, compared to the pattern of trade which it is estimated would exist if only the current controls were in effect?

The "loss" to Communist China as a result of a total embargo by non-Soviet bloc countries against shipments to Communist China would be a reduction of potential imports by about \$120 million, or approximately 30 percent of total non-military imports. The commodities which would be "lost" to Communist China would consist chiefly of raw cotton, gunny bags, rubber, cotton cloth, sugar, some specialized machinery and miscellaneous items.

3. How would this "loss" of imports affect the industrial segment of Communist China's economy?

- a. Effect on industrial production.

The effect of this "loss" of imports upon industrial output is likely to be concentrated in the textile industry. The failure to secure raw cotton imports may be expected to reduce prospective textile mill output by nearly 10 percent. To a considerably smaller degree the loss of other imports such as natural rubber, and miscellaneous producers' goods would reduce output of other consumers' goods. In general, it is probable that the Chinese Communists would be unable to increase industrial output in 1952 in accordance with their announced goals, but

TOP SECRET
SECURITY INFORMATION

TOP SECRET

19

SECURITY INFORMATION

they should be able at least to maintain current levels of production.

- b. What would be the effect on transportation? What would be the consequences of these effects to the rest of the economy? (CIA)
- c. What would be the secondary repercussions, such as consequences upon Communist China's monetary and fiscal difficulties?

A total embargo would create additional economic difficulties for Communist China. Export markets in non-Soviet bloc countries, estimated to be able to absorb \$200 million of export production, would be lost, and there would be a net reduction of total imports of \$120 million, largely of producers' goods. As pointed out in IV. A. 3. c. above, although the reduction in gross national production is small, the reduction occurs in a segment of the economy on which the government relies heavily for fiscal support and which is highly important in increasing the productivity and output of the economy.

4. Would there be any significant effects in the non-industrialized segments of Communist China's economy?

A total embargo may be expected to reduce substantially imports of chemical fertilizer, which are used to a limited extent on certain industrial crops and by State farms. The loss of these imports, however, would not seriously affect the output of these crops in view of available substitutes of domestic organic fertilizers, including bean cake, bone meal, etc.

5. What would be the effect on Communist China's Army and Air Force? (G-2 and A-2)

TOP SECRET

SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

20

6. Would further political problems of controlling the country be created as a result of this embargo?

No new problems are likely to be created but existing problems might be intensified. As pointed out in IV. A. 6 above, the effects of the embargo are small but contributory to the general economic strains of the war effort. A total embargo would add to the pressures on the government to take drastic and harsh deflationary measures at the risk of further losses in popular support and of undermining the morale and efficiency of its administration.

7. What effect might these economic dislocations and military and political problems have upon Communist China's foreign policy?

- a. The effect upon peace negotiations in Korea?

The effect of a total embargo, in adding to the existing economic strains in Communist China, would enhance the advantages of a peace settlement for the Chinese Communists. It is unlikely, however, that the additional economic pressures or the imminent prospect of such pressures would in the short run compel the Chinese Communists to make concessions that would in their mind entail a threat to their security, a serious loss of prestige or a breach in their relations with the USSR.

- b. The effect upon a possible invasion of Southeast Asia? (G-2)

- c. The effect upon relations with the USSR?

The effect of a total embargo would be to increase existing economic strains in Communist China and to increase its dependence upon the Soviet bloc for imports. While it is assumed that the USSR would make strenuous efforts to meet Communist China's import requirements,

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

21

it is evident that the Soviet bloc countries cannot fully meet Communist China's needs and that the deliveries which are made will be at considerable sacrifice to their own domestic requirements. If the Soviet bloc in large measure meets Communist China's requirements, despite the costs involved, its relations with Communist China would tend to be maintained if not strengthened; on the other hand if the Soviet bloc largely fails to fulfill these obligations, the area of potential friction between the USSR and Communist China would tend to be broadened.

TOP SECRET
SECURITY INFORMATION

TOP SECRET
SECURITY INFORMATION

22

C. What would be the long-run effect of a total embargo of imports from all non-Soviet bloc countries?

Over the next five years it may be expected that the adverse economic effects of a total embargo would be modified with the rationalization of the economic dislocations and the adjustment of the economy to the changed conditions. Communist China's imports from the Soviet bloc countries, as indicated in B. 2. a. above, might increase moderately, while Communist China's import requirements, particularly the major one of raw cotton, could be materially reduced through the development of domestic production or of domestically-produced substitutes.

Under these conditions it is probable that the present level of industrial output could be maintained, provided the Chinese Communists can continue to maintain their controls over the economy to mobilize domestic resources. It is clear that there can be little expansion of industrial capacity, not only because of the inability to secure substantially increased capital goods imports, but primarily because of the continuing strains of the war which will militate against and may even result in net disinvestment in the industrial sector of the economy.

D. What limitations would there be to the imposition of full embargo?

(Discussed in Section III.)

TOP SECRET
SECURITY INFORMATION

ATTENTION: This form will be attached to each top secret document received by the central intelligence agency or classified top secret within the CIA and will remain attached to the document until such time as it is downgraded, destroyed, or transmitted outside of CIA. Access to top secret material is limited to those individuals whose official duties relate to the material. Each alternate or assistant top secret control officer who receives and/or releases the attached top secret material will sign this form and indicate period of custody in the left-hand columns provided. The name of each individual who has seen the top secret document and the date of handling should be indicated in the right-hand columns.

DATE _____